“South Indian Bank Q4 FY2021 Earnings Conference Call hosted by InCred Equities”

May 21, 2021

MANAGEMENT: **MR. MURALI RAMAKRISHNAN – MD & CEO, SOUTH INDIAN BANK**
MR. THOMAS JOSEPH – EVP & GROUP BUSINESS HEAD, SOUTH INDIAN BANK
MR. DORAIVEL S. – CHIEF CREDIT OFFICER, SOUTH INDIAN BANK
MR. LEELANAND K. - HEAD TREASURY, SOUTH INDIAN BANK
MS. CHITHRA H. – CFO, SOUTH INDIAN BANK

MODERATOR: **MR. SAILI CHHEDA – INCRED EQUITIES**

Moderator: Ladies and gentlemen, good day and welcome to the South Indian Bank Ltd. Q4 'FY21 Earnings Conference Call hosted by InCred Equities. As a reminder, all participant lines will be in the listen-only mode a there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Saili Chheda from InCred Equities. Thank you and over to you, ma'am.

Saili Chheda: Thank you, Faizaan. Good afternoon, everybody. On behalf of InCred Equities, I welcome you all to 4Q FY21 Earnings Conference Call of South Indian Bank. Today we have with us Mr. Murali Ramakrishnan – MD & CEO; Mr. Thomas Joseph – EVP & Group Business Head; Ms. Chithra – CFO along with other senior members from the management team.

Without further delay, I now hand over the call to Mr. Murali Ramakrishnan from his opening remarks. Over to you, sir.

Murali Ramakrishnan: Thank you. A very good afternoon to all of you and thank you for joining us for the South Indian Bank Q4 FY21 Earnings Conference Call. We hope that you and your family are healthy. We continue to appreciate the efforts of our employees who have shown strong resilience and ability to adapt to changing circumstances. We are joined by my colleague Mr. Thomas Joseph – EVP & Group Business Head; Mr. Doraivel S. – Chief Credit Officer; Mr. Leelanand – Head Treasury and Ms. Chithra – CFO.

Delivering on my guidance given in Q3 2021, I am happy to announce that we have raised Rs. 240 crores of equity capital through marquee domestic institutional investors in March 2021. This capital raising was the first tranche of the overall equity capital target of Rs. 750 crores. The above investment by domestic institutional investors is subject to one-year lock-in that will provide stability and visibility in our shareholding.

The Bank has posted all time high CASA of 30% in the history of the bank. The overall CASA amount increased by Rs. 3,830 crores during Q4 2021. The Bank has opened about 3.2 lakh new savings account during FY2021. There has been dedicated effort and strategy put in place to build low cost liability franchise and robust review mechanism has led to efficiencies amongst the branch staff.

As far as overall business for financial year 2021 is concerned, it was the strategy of the Bank to rejig the existing portfolio with the focus to diversify the risk both in asset and liabilities. We are replacing the bulk deposit with retail deposits and the bulk corporate exposures with diversified retail exposures. We have completely rundown Certificate of Deposits in FY21 and in the process of streamlining bulk deposits. Growth in retail term deposit and CASA have compensated for rundown in the bulk deposits, performing other subtle changes which were made to enable assets build up. The Bank has been following branch structure where asset and liability businesses were managed by branches. This structure was not quite conducive for growth of assets in the present environment as huge focus efforts are required to win over a good asset from the intense competition. Therefore, to facilitate the focus and drive a dedicated vertical asset structure was formed for all retail asset businesses in which the branches would access one more channel for sourcing new leads from the existing customer and walk-in potential customers. Similarly, MSME and corporate banking verticals have been formed with dedicated sale structure across the country. Apart from the structure we also need good processes and systems to meet up with the TAT and customer expectations. As we speak today, the new vertical structure is in place with dedicated teams. Wherever we feel that internal talents are not available especially in the retail asset vertical, we have recruited expert laterally through drive those businesses. Apart from this, we had set up a separate data science division which would help us to do analytics in the area of assets, liability, collections etc. We have also set up separate operations division to take care of TAT and fulfillment of asset and liability transactions. Most of the systems development, taking up the policies and process implement is done with the necessary resources in place and aiming for a credit growth of about 10% in FY22 and a relatively stronger growth of about 18%-20% in the coming year. The big headwind in this plan is the impact of second wave of COVID on the individual and the business community and the possible third wave too.

Let me take you through for the key highlights of the operational and financial performance for the quarter:

The company reported net profit of Rs. 7 crores for Q4 FY21 compared to net loss of 144 crores in Q4 2020. As of March 31, 2021, the total business of the bank stands at 1,40,767 crores. Advances declined to Rs. 59,418 crores mainly due to recognition of proforma NPA during the quarter and degrowth in corporate loan portfolio which was offset in part by 15% year-on-year growth in total gold loans to Rs. 8,999 crores. The share of standard large corporate loans ie Advances having exposure Rs. 100 Crore and above, has been continuously declining from 27% in FY15 to 5% in FY21 in line with our stated strategy of calibrating corporate exposure and building granular retail book. Core deposit rose by 12% to Rs. 77,857 crores. CASA deposits increased by 18% to Rs. 24,590 crores. CASA ratio improved to 29.73% of the total deposit. Bulk deposit declined by 55% in line with our strategy. NRI deposits which have been growing strongly rose by 9% year-on-year to Rs. 25,855 crores and contribute about 31% of total deposits. Low cost NRI deposits grew by 11% year-on-year to Rs. 7,797 crores. Our investment was at Rs. 21,180 crores of which HTM category contributed Rs. 18,951 crores, while AFS contributed Rs. 2,230 crores.

In Q3 2021 we had given an overall guidance on credit stress of Rs. 2,500 crores of which Rs. 1,600 crores were slippages and about Rs. 900 crores as restructuring for Q3 and Q4 of FY21. The overall stressed exposures during Q3 & Q4 was Rs. 2,473 crore which includes NPA slippages of Rs. 2,122 crores and one-time restructuring of Rs. 351 crores against the overall guidance of Rs. 2,500 crores. Gross NPA ratio is at 6.97% as of March 21. Based on the order of Supreme Court, exposures amounting to Rs. 1,507 crores which were overdue but were not classified as NPA as of December 2020. Considering the said proforma NPA, our GNPA was 7.27% as at December 31, 2020. During the quarter the Bank has done technical write off of Rs. 975 crores. The net NPA ratio was 4.71% as of March 31, 2021. Net interest income for the quarter was Rs. 561 crores. Net interest margin was at 2.61% for Q4 2021 as against 2.67% for Q4 2020. Cumulative NIM for FY2021 was 2.71% as against 2.66% for FY2020. Non-interest income for the quarter was Rs. 390 crores. Our core fee income increased by 25% YoY to 224 crores while treasury and forest income decrease by 30% YoY to Rs. 166 crores.

Operating profit for the quarter was Rs. 423 crores as against Rs. 533 crores in Q4 2020. The cost-to-income ratio for FY21 was at 55.0%. Overall provisions decreased by 43% to Rs. 412 crores in Q4 FY21. These provisions included Rs. 719 crores towards NPA and NPI and reversal of standard asset provisioning of Rs. 290 crores. The provision coverage ratio stood at 58.7% at March 2021 as against 54.0% at March 2020.

Our overall capital adequacy improved to 15.4% as at March 31, 2021 compared to 13.4% as at March 31, 2020 while the core CRAR stands at 12.8% as at March 31, 2021 compared to 10.8% as at March 31, 2020.

To summarize:

The Bank will continue the strategy of building low-cost CASA book, focus on gold lending, improve NRI share of deposits, improving cost efficiencies and improve asset quality by focusing on building granular advances booked through personal, agri and business segments.

With this, I open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ravindra Kumar from RK Capital. Please go ahead.

Ravindra Kumar: Sir, the question or concern I have is on provision. So, most of the operating profits in the past couple of years is going into the provisions. So, how long it can continue and when can banks see a reasonable return?

Murali Ramakrishnan: Good question. Yes, you are right, in the past, operating profits have gone towards providing for the bad book. But this year being an exceptional year and last full year as we know the economy has been showing lot of turbulence and whatever little progress which we were seeing in Q3 and Q4, we are seeing lot of changes happening in Q1. So, while I would like it to be much less, but then the fact remains that lot of consumer, individuals are losing jobs and many of them are having cut in their salary. Similarly, many of the small business owners etc. they are going through very tough situation due to the pandemic. So, we need to recognize the fact economy clearly is not what it should be. Therefore, the opportunity for anybody to generate cash flow itself is coming down because of the unprecedented situation. So, while this is on one side, the challenge which I have is of two-fold. One is how do you manage the existing book which carries certain portfolio which is already showing signs of stress and how do you I manage the incremental book which will get added in this period of stress. So, we have worked out a well thought out strategy. We are very clearly driving profitability through quality credit. Therefore, we don't want to rush in and add assets which can create problems in the months and years to come. So, we are picking and choosing the right kind of quality for adding any new book. While doing that how do we manage the existing book? So, that is where the effort which has been made towards granularizing the portfolio both in the corporate side as well building retail, which will help us to diversify the risk. So, the structure which I read out that we have already put in place will enable the new incremental addition to assets which will get added in the month and years to come will be granular and the same time will be of better quality because we are going to be using credit models for better underwriting while we manage the large book. And also, you must remember that during this year which just ended, there were quite a good number of months where even the recovery operation in the country suffered due to many of the courts were not functional due to people not being there, Judges not being there etc. So, it was a pretty tough situation. Similarly, the ruling of Supreme Court, to say that you can't classify something as NPA, which made all of us to look for the entire book which is technically NPA as proforma NPA. But we are not able to do any action because it was not technically classified as NPA. So, all this has led to delayed efforts in recovery also. Hopefully in the months and in this year we will be able to do much recovery if things provide conducive environment for going after such cases for better recovery and at the same time consciously reducing the concentration risk in the existing portfolio and incrementally adding good book. This is a correction which we need to do in the bank books which is not a short-term gain, it will take some time. So, we have drawn a plan through which we will be steering the entire portfolio mix to be moving towards better quality and we will start seeing the signs of it in the few quarters to come.

Ravindra Kumar: I agree with you. I can see a lot of improvements once you have come to the banks and continue your Vision 2024 as well. But the concern is from past many years investors have lost a lot of wealth and the one more thing which I can't understand is there is a lot of interest from the big banks to acquire for the bank expansion and all and I know that South Indian Bank is having a very good brand recognition in the branches. Was there any interest which you can clarify or what is stopping the bank or the investors from going for it?

Murali Ramakrishnan: You are asking what is stopping bank from what?

Ravindra Kumar: Merging with the efficient banks and so that some investors can get some returns. Because definitely if Kotak or some other big bank which is wanting to expand or acquire a small bank, if that happens investors will be benefited?

Murali Ramakrishnan: This is a question which I can't answer because we can't talk about what other banks will be showing interest on. I would be very happy to answer what I am planning to do, to make the bank efficient.

Ravindra Kumar: That I can see, sir.

Murali Ramakrishnan: That is what we have spelt out as a strategy and whatever progress which I am showing, which I am reading out to you, is in the direction making the bank stronger. So, I believe that with the team and with the plans which I have set in place, I believe that we can bring this bank back into performing bank with a dedicated effort of team and with articulated clear plans for turning around the Bank.

Moderator: Thank you. The next question is from the line of Renish Hareshbhai Bhuva from ICICI Securities. Please go ahead.

Renish Hareshbhai Bhuva: Sir, couple of questions. One is, obviously on the asset quality. The calculate PCR is again fell to sub 35%. What is the sort of, I think in your Vision 24 we have articulated PCR target of 65% or so? So, it suggests that credit cost even from the legacy book is likely to remain elevated and given the second wave, of course in FY22 we will have some higher slippages than its run rate. So, what is your take on overall asset quality or maybe credit cost in FY22? I mean, of course you can't quantify but maybe qualitatively what is your assessment as we speak today?

Murali Ramakrishnan: Partly you have answered your own question. Basically, we are at a situation where it is extremely difficult to predict how the market will pan out in the months and in the next few quarters to come. But having said that, in my vision plan also, if you recall we have said that we will put the entire structure in place and we will start actually working on building good quality book from April onwards. So, while we have already put the structural in place, with the people in place etc. we are also in the process of putting all the other important key things required for taking up the business and at the same time we make these assumptions with a certain expectation that markets, and economy will behave in a particular fashion. Clearly today given the situation, no one I think is able to say with certainty what will happen in Q1-Q2, in fact other day I was hearing to lot of economist talking about their own predictions about what will happen in Q1-Q2 of this year. They have already revised their numbers downwards. In fact they are talking about the second wave structures and they believe third wave will be worse than second wave. If that is going to happen, some of them has said that the entire years is a wash out. So, I am not trying to be pessimistic. I am just saying that we need to be realistic about how these things will pan out. What I am very clear is, I also take it as a blessing in disguise because when the market is not very conducive for asset build up, it also gives time to put a building block in place so that as and when the market throws an opportunity for you to do good business, I think we would be ready to take up those. So, when I say how do you put those structures in place, that is where I talked about structure, the platform, the credit model, training, capability building etc. So, I think those are areas which we are now continuing to be investing in our people. And

I believe that with these things coming in place and we have not really taken up a very ambitious plan in terms of asset growth for the year. So, I believe that we will be able to catch up even if we lose a couple of months here due to COVID . I am asking to see that we will be able to catch up with the numbers which we projected. But having said that obviously performance of this is all completely link to what the opportunity will come in the economy. Therefore, we need to be watchful, and we need to take it as it comes. So, in terms of PCR, you are right. We were at about 34% as of Q1 FY20 and we made a conscious effort to build this and in fact we build it up to 57% in Q3, though Q3 it was an elevated one as you know because of proforma NPA which was not a realistic situation. But we were at about 40% level. Now clearly with the entire proforma NPA we are hitting the entire banking system because all these numbers became more and more visible in the month of December to March is when all the banks started actually feeling the impact of lockdown lifting and the repayment etc. We recognize that it is low, therefore we would definitely want to work on improving it. But this also to some extent suffer from the fact that we are provided now 100% in many cases extra which we had to write off to manage between GNPA as a percentage and PCR**.** So, this is a decision which anyway as a bank we need to continuously do, keeping very high NPA percentage without writing off is one way to follow. The other one is to really manage both reasonably well. But I recognize that it is low, and we will definitely work towards improving. The way it will start panning out to better numbers is when we start building good assets and we also know that some of the frauds which have hit the bank, we have completely provided for it as at March. Further there are some big accounts where we have provided fully as at March. So, unless we see that whatever restructure which have happened due to COVID if they behave much worse than what we are anticipating we believe that we will be able to slowly improve it. I am not promising anything but then our endeavor will be to take it up to at least 38% level in the coming year.

Renish Hareshbhai Bhuva: Got it. Sir, secondly on this whole liability franchise, the 30% CASA itself suggest that being a strong liability franchise exist in south and specifically in Kerala and I am assuming since large phase of this customers are from the NRI side wherein you know it is right to assume that the AMB would be much higher. So, sir, what is the broader strategy in terms of cross selling or maybe leveraging this, the whole liability base. In lending sector, I am sure very few guys will be having such a robust liability franchise. So, sir, what is the thought process about leveraging this whole liability period?

Murali Ramakrishnan: Good question. If you recall, one of the points which I articulated in the strategy is also to work on improving the other income which you might have seen that we have already started seeing traction in this quarter results also. So, the way to go about this obviously to do lot of cross sells for the existing customers and given that we have also set up our analytics division, we are now using asset analytics, liability analytics and collection analytics to figure out good existing liability customers, who have the potential to take up any asset products. So, products like personal loan this bank had negligible presence. We had only some Rs. 500-600 crores of portfolio in the personal loan which is one of the easiest products to lend at the same time definitely being an unsecured it carries its own risk. But then if you do it with a good quality underwriting and with mining of data liability customer base which you talked about from the NRI as well as existing domestic customer base, we can tap leverage on this quality of customers to cross sell products like personal loan, products like some of other retail products like auto loan, home loan etc. So, already the work has started, and we have in fact given that we cannot actually go out to the market and source the customers given the restrictions in movement etc. This is where I think two areas in this bank is helping us, one is this analytic is helping us to pre-approve the customers who we can get in touch over phone and everything, all the entire fulfillments can be done over remote through electronic and digital way and the bank is very strong in the digital and technology area. So, we are pretty confident that we will be able to fulfill using our digital capability. So yes, the liability franchise is definitely getting used now for leveraging our strength over there for cross selling particularly retail assets.

Renish Hareshbhai Bhuva: Got it. Since because we must be having a long transaction history with us, we will be in a better position than anyone else to leverage this base. So, I was just wondering what is happening there?

Murali Ramakrishnan: You are absolutely right, and we are on the same track. Your point is valid.

Moderator: Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Broadly sir, if you could highlight, we have continuously seeing appointments at the top end of the management almost couple of people have joined especially from ICICI Bank. So, sir, could you just throw some light, what is the mechanism of this strategy that we are going to follow to motivate the higher end of the management etc. in terms of resource and all and again in terms of changing the DNA of the lower end of the spectra, what are the thought process or what are the changes we are going to bring about over a period of time. That will be really helpful, sir.

Murali Ramakrishnan: Good question. So, first of all, I just want to make a small correction. We have added, very small number of people in comparison to the base of employees we have. So, we have 8,000 plus employees and what we have added is very miniscule number. Primarily in the area wherever we felt that we need to bring in expertise in those products, specially identifying those specific skill sets we have added few people and therefore that number obviously is much smaller compared to the existing employee base. Second even in the existing employee base, through a conscious process of identifying these skillsets particularly in the senior management level, we have identified people who have demonstrated skillsets and we have made them heads of divisions and departments so that we can leverage the experience of those employees having been in this bank for 2 to 3 decades. So, we are actually using a good mix of lot of existing talented employees supplemented with few additions from outside to manage important functions and divisions. Second point on motivating employees with ESOPs etc., ESOP scheme which was already there in the Bank, clearly after my moving in we have sort of relooked at that ESOP policy and we have done little bit of tweaking based on what is commonly done in the market and with that we will be definitely making use of that as a tool for motivating not necessarily senior employees but even middle level employees for having, recognize their contribution for the development of the bank. So, this is on the subside. Third thing which we you talked about, DNA, I think you are in the right track in terms of asking, the very relevant question. How do you actually transform the Bank, because the entire transformation will happen only when the entire employee base of the bank works with a common objective of making the bank stronger and better. So, towards this I think we have taken lot of initiatives. Just to site couple of them, we have come up with a set of values which you would want every employee in South Indian Bank should display and we have articulated that we have sort of made each of those values, how it can be displayed through the everyday behavior in our day-to-day conductance of our affairs in the branch and how do you make every employee sort of absorb it and imbibe it, so that it becomes second nature to them and towards that we also sort of, in order to bring them into, being aware of this at all points in time, we also made like what we used to do in one of my earlier organization with GE Capital. We have made actually cards etc. which clearly articulate the deals values and how this can be displayed through everyday behavior and these cards were made available to each of the employees and apart from this every month we are also taking one of those values as a theme and we are creating some excitement around that theme across the regions and across the branches. Plus, apart from this you created in our own intranet places where leaders can spot such display of behaviors by the employees and they sort of put it in the system which will be looked at by the entire bank through which we are actually popularizing that such behaviors are positively reinforced amongst all the employees. So, I think this is on the soft side. On the hard side, in terms of skill breeding and functional skill breeding as well as in the soft skill breeding, we have also initiated a department of learning and development wherein we are going to be making use of e-learning models with content developed both inhouse as well as content obtained from outside. With lot of video training, because today given the fact that we can't have a classroom training for all the employees, we are coming up with a short video captures which will highlight some of the traits which we don't want our employees to carry. For example, sales training, how to initiate a sales talk; how to close a deal; how to negotiate with a customer. This kind of some of the sales skills etc. very rightly demonstrated through a very short video of 5 to 6 minutes with nice animation which will be circulated to the employees and they will learn it through in a fun way about this skillset. Through this we are sort of standardizing the learning process also and making each employee really imbibe the culture that learning is something which we need to do continuously in order to become better and better. So, these are some of the initiatives which we have taken on the capability building side. If we recall capability building is one of the 6Cs which we are working. So, lot of initiatives have been taken around this.

Bajrang Bafna: Great. I think that was really very enlightening to see that we are trying to change the DNA because that is the as per new, the biggest issue that needs to be tackled very carefully and I think we are working in the right direction.

Murali Ramakrishnan: Thank you.

Bajrang Bafna: Sir, the second question and the last question is, if you try to compare your bank with the similar geography, the Federal Bank, we have seen that one is, the management was in a capable hand. The slippages have come down drastically and even in this pandemic if you just try to compare what slippages that we have reported and what Federal has reported, I think not even a single private sector bank even the larger one has been able to compare with Federal Bank. I think they must have done right in that bank and that is why in this pandemic they had been able to manage less than 2% kind of slippages. So, hopefully you are also working in that direction, sir. But directionally when can we see because corporate book has come down less than 5% now and we are continuously building granular book. So, maybe 22-23, so quite something where we could also see slippages to the tune of let us say less than 2% kind of number because that is where when we start making meaningful profit**.** Hope my question was clear, sir?

Murali Ramakrishnan: Yes, your question is clear. Sir, I would want to respond it in two ways. One is you are right. We definitely appreciate Federal Bank's performance and one should also remember that Federal Bank has started doing many of these activities quite some time back. I think just after Shyam moved in as a Federal Bank kid. I think since then has started doing all these changes which is at least 10 years old if not more. And therefore, these changes take time and therefore clearly you are looking at a bank which has initiated all this sometimes back and you are seeing the fruits of that action happening now. I am not saying you should take 10 years for everything to be seen in this bank. While we appreciate what they are doing, each bank has its own set of issues and set of portfolios, set of culture, set of people, set of challenges which are very different. I am sure you are working for certain organization you will find that your own peers who are in the similar line of business must be at a different state of evolution in the same space. So, I think beyond the point we should drive our vehicle looking at our own rear-view mirror. We can't drive our vehicle looking at Federal Bank's rear-view mirror. So, we need to do what is right for us. So, therefore, I believe that what are we set out to do, we need to be patient, we need to be diligent, and we need to be continuously working at it to make it better and better. Yes. I would also like to see these numbers coming down sooner than later but given that we should also recognize that we are facing one of the most unprecedented situations in terms of economy. It is the toughest period. So, in the most difficult period when you are trying to manage book which as certain big challenges, I think it requires humungous effort to work on all areas. One thing is that you have everything in place, structure in place, people in place, you need to only work on the quality of book that is one kind of a problem. The other kind of problem is, yes, you have a quality in place but then you have people challenges then that is a different set of problem where skill building can be focused, and it can be brought in. But when you have these two coming at different levels and the economy not doing very conducive, you are working with too many uncertainties, therefore it requires really humungous effort and diligent sustained efforts without losing patience we need to work at it to make it better. We are quite confident. That is the reason why we have drawn also plans for the next 3 years with certain assumptions, obviously those assumptions need to be revisited depending on how the economy is panning out.

But we are quite optimistic that we will go at it and we will put our best efforts to make it happen. We will not spare any efforts, that much I can tell.

Bajrang Bafna: Sir, just to reiterate this part, what kind of a stress that probably we are seeing right now because I believe that last year lot of cleaning has already been done in terms of legacy book and all, that the best effort that the company has already adopted. But going into FY22, I know it is premature, because still we are in the midst of crisis but whatever that you are seeing last 1.5 months, what sort of expectation for probably the modeling that we should do for this year? Any guidance from that will be really helpful, sir. Maybe a range would also be good.

Murali Ramakrishnan: Very difficult to give guidance. But looking at the way I think what we experience in September-October to what we are experiencing now and with an anticipation that second wave, how long it will last and when the entire vaccination will happen and prevent people and when each state governments will lift their lockdowns etc. with so many different states adopting different methodology to arrest the COVID infection, it is extremely difficult to predict any. So, in my mind I am assuming that this year, coming here without any solid data to back it up, I would tend to think that it will be as bad or as good as this year which went by.

Moderator: Thank you. The next question is from the line of Suraj Das from B&K Securities. Please go ahead.

Suraj Das: Sir, my first question is on the collection efficiency. So, if I see, on slide #19 the collection efficiency was 90% for the overall bank. If you can give some color on segment wise collection efficiency like, let us say for business loan, personal segment or corporate, how it has been and what is the trend for April or maybe first fortnight for May because I mean a lot of lenders have reported that they are seeing dip in collection efficiency. So, it has been for your case? That is my first question.

Murali Ramakrishnan: You are right. The collection definitely suffered very badly during the lockdown period as well as in Q3-Q4 etc. The trend which you are seeing is, in the month when the bills are sent to the customer, the recovery efforts are clearly much less on the same month end the demand falls due. But over the next month and next couple of months the recovery happens from those customers. So, today we must recognize that today whether it is an individual consumer and a self-employed, today there also, I mean as much as you and I are suffering from not being able to go to physically to any place and do work. They also suffer from the same thing. So, for them to generate cash flows will be very difficult especially if you are in a business where your supply is impacted, your **customers** are in trouble and you are not recovering, you are not able to receive money. So, clearly the market is really hitting them very badly. So, what we are saying is over the next one month or two months if collection is definitely turning close to 97%-98% on the demand which has been raised, on the same month it will be about 90%-91%, but over the next one month to two months it moves up to as high as 98%-99% and here again I like what I said earlier retail recovery is much better. They are definitely crossing 97% upwards, 99.9% for housing loan, vehicle loan is about 99.9%. So, we are seeing good traction in retail loans. There are challenges in term loans to MSME or Corporate because a) the outflow will be large, b) the market is not conducive for them to carry on this. So, compared to every march I would say April and May are definitely worse than because the pandemic second wave has started hitting the market in the month of April and now as we are talking we are going through serious stress. Collection, though I don't have the numbers but subjectively I could sense that the collection is muted. We will have to see how it will get collected over a period.

Suraj Das: If my collection efficiency is something around 91% for the month, then my total overdue book will be something around 9% or 10% cumulative including SMA-0, 1 and 2. So, is my understanding correct?

Murali Ramakrishnan: Correct. But what we should see is obviously it is not in that month, I mean today even if we look at other banks, I think this trend is similar. It is not that the customer have money and they are not paying. It is actually they are in a difficult position not being able to pay due to the fact that their income revenue has been affected either if they are individual they have lost their jobs or drop in salary or if they are self-employed they have lost their business, or they are having less prospects of business. So, you are right. 91%-92% is the collection efficiency for the month when the due is made, to that extent 9%-10% will fall in the SMA-0,1 or in the buckets. But then over the next 1 or 2 months it gets collected. So, what I am doing as a bank is we carry out this SMA review every week. In fact, this is something which is driven by me personally to ensure that we are constantly after the customer as and when he realizes we are able to get paid off. At the end of the day, today's situation is if a customer is injected with 3 or 4 financiers, clearly whoever is able to meet with him regularly will be able to collect the money, particularly for the stressed customer. Good customer anyway will be able to pay everybody. I am talking about customers who are stressed. So, they will obviously prioritize and give it to the lender who is after them. So, I think that is something which we are bringing in a sense of urgency into the team by carrying out reviews every week.

Suraj Das: So, sir, on the GNPA side, in the last call you said that out of your proforma slippages of say Rs. 300 crores there were two lumpy corporate accounts which were roughly something around 400 crores. So, now in this quarter we have released that, there are two corporate accounts which are slipped which are supposed to be restructured, however has not been restructured. That is 205 crores. So, are the same accounts, I mean how is this?

Murali Ramakrishnan: Out of the two accounts which I talked about last quarter; one we have recovered cash. And the other one which I talked about restructuring will get restructured in this quarter and will anyway come out of GNPA in our June numbers. These two accounts with total exposure of Rs. 205 crores will get out of NPA into restructuring, one of them has been done already.

Suraj Das: So, that will be upgraded by Q1?

Murali Ramakrishnan: Correct, absolutely.

Suraj Das: And sir on the recovery side, I guess in the opening remarks you said that out of 1000 crores of reduction in the quarter, the write off was something around 900 crores. I mean on the recovery actually sir, I wanted to ask what is the recovery expectation you have for Q1 or Q2 or let us say for FY22?

Murali Ramakrishnan: See, what we are seeing is that if you look at the year which went by, the recovery efforts which all of us made in Q1, particularly in Q1, Q2 and Q3 because of many issues which I talked about, like courts were not in place, even IBC and many of the NCLT, I mean judges were not there. So, lot of efforts were put in around that time and all the legal cases were filed and all the follow-up efforts are happening. Only in Q4 we could see some traction of recovery happening. So, all of the recovery which we have made has actually happened in Q4. So, coming here I only hope that we will not go back in the same situation. Also, if you recall because of this Supreme Court guideline being tagged as proforma NPA we could not do anything on those cases. We could not file, we could not proceed again those cases. In fact many other state governments there has been ruling also saying that you can't follow up also with the customer for recovery because government clearly is of the view that customers are stressed**.** So, anybody trying to recover through any means will be tantamounting to harassing. Since we are present in all the states, especially in southern states more predominantly, we find that last year actually suffered from some of these. But despite that whatever target which we gave for the recovery team I think they were able to meet up with that number. But clearly that is much lower than what otherwise we would want. So, just to give you numbers, we made a GNPA recovery of Rs. 69 crores in Q4 of FY20, in Q1 FY21 it was Rs. 19 crores, Q2 FY21 it was Rs. 115 crores, Q3 FY21 it was Rs. 79 crores and Q4 FY21 it was Rs. 106 crores. So, you could see that the jump in recovery has happened in Q4 compared to even the Q1 of Rs. 19 crores. So, all these suffered because of the various things I talked about**.** Hopefully this year we believe that it will become little better, and we will be able to take all our recovery efforts to fruition. So, that is what we are hoping.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: Sir, can you help us naming some of the senior members of your team who has joined on your Bank in last 4 to 5 months and at what level they have joined, if you can just provide a brief about them and with their names?

Murali Ramakrishnan: I think we can probably share that offline with you if that is okay? I can tell you that the people, I recruited are Head of Home Loan and Mortgages, Head of Unsecured Products, Chief Credit Officer, Chief of Operations, Head Data Science, Head Agri Credit and and Head Treasury. They are already in place.

Vaibhav Badjatya: So, I will take their names offline. Secondly, on the business model of the bank, so India already a crowded banking space, which bank do you think that South Indian Bank can try to aspire to be and which you think that probably that is the model South Indian Bank can also work for or aspire for? So, is there something on this line?

Murali Ramakrishnan: I rather than looking at any particular bank as an idol, since I have worked in a private bank also for long, obviously my experience of having worked in the large private bank where I was involved in building up the portfolio in the bank and I work across various functions in the bank, what I can tell is that the practices which I learned over a period of time working for that bank, those practices have been tested and proven because it has stood the time of 3-4 big changes which had happened in the economy. So, I know there was good practices to have. So, I would rather put those practices and models and systems and process in this bank to emulate those structures which will stand the test of time. So, instead of looking at a bank for modelling because the conditions are very different. In large private sector banks, the way they can, I will just give you example. The way they can compensate is very different. The way they can increase the stickiness is very different. The way the skillset which they would impact will be very different. They can afford many things which I think smaller bank cannot afford. So, obviously the methodology which they adopt cannot be just simply replicated. But the good practices, the way we went about building the portfolio with a good quality, with a good yield and with a right monitoring to happen, with a kind of processes to put, policies to put and with the kind of independence to be given for credit team to have a say on the quality of the transaction, to enable the sales team to go and source the right kind of customers, to make the sales person appreciate the risk when we are sourcing a case in the market, those are good practices which we are now trying to build in the bank.

Moderator: Thank you. The next question is from the line of Vibha Batra from Fair Connect. Please go ahead.

Vibha Batra: You have covered that how recoveries, they did improve in Q4 and based on that now that Supreme Court restriction is not there, of course it is difficult to predict on how the operating environment will pan on. But you know the kind of assets you have built in, your strategy and lot of legacy assets have now rundown, and you would have a good hang on what your portfolio is. So, if you want to take an overall view on the slippages and recoveries, what kind of credit cost do you think one would have in the coming year and after that in relation to your advances**?**

Murali Ramakrishnan: Yes, you are right. Now that I am 7 months since I got into the bank and I have a fairly decent understanding of the portfolio which are carrying, so we are clearly looking at how the portfolio is behaving currently and what kind of exposures we have taken and what kind of industries we are exposed to and also we are closely looking at what is happening in the market in this pandemic, what kind of industries are going through difficulties. Given that this is on the hardcore behavior of the individual credit cases, but apart from that there is also equal uncertainty in the recovery environment and collection ability going to the customers and being able to recover money from retail, SME and corporate customers. Those are definitely suffering due to lockdown and various another situation. So, it is virtually impossible to predict how it will pan out. But obviously we are working with certain assumption. So, that is the thing which I answered earlier. I believe that this year given these uncertainties in my view it will be as bad as this year is what I feel in terms of loss provisioning which we might have to take. But this is obviously assuming that the things will be as booming as it is today. If things become little better, I am sure our collection and recovery efforts will also become better and customers will also be able to swing back to cash flow situation and operations and individuals also will be able to pay back whatever is the liability. So, we are working with the assumption that, we always say that credit cost will be around 2.25% is what I am using as an estimate to make my projections and obviously try and see if we can improve it over a period of time.

Vibha Batra: And over longer term, something here maybe…

Murali Ramakrishnan: This year is difficult to predict. I don't know how we can say about the longer term. Next quarter we are not able to predict with certainty, let me tell you honestly. Next year, the way we build up this much itself, with the traction happening in the advances book, the way we are now gearing ourselves for doing retail SME with incremental book which is getting built will be I am reasonably sure it will be of better quality. So, with that clearly the things will definitely be looking better than what it is today because any addition to my portfolio. I would want to ensure that quality is definitely there and whichever is there in the present legacy book which I am carrying, I will try and see how to make them perform, through all my efforts in recovery or through restructuring or through any of those kind of things.

Moderator: Thank you. The next question is from the line of Renu Goel from Goel Investment. Please go ahead.

Renu Goel: Actually, I have two small questions. I am a retail investor, and I am invested in South Indian Bank for last more than 5 years and I invested around all of my investment in South Indian Bank. So, I was just looking for when an investor can expect some return also the investment because in first year when I bought the right share, we got some 60p per share dividend and then after that we got 50p then 25p and in the last two years nothing is coming out and all the investment is around 50% value left. So, from investor point of view by when we can expect like some return coming out of through anyway through the bank?

Murali Ramakrishnan: It is a very difficult question for me to answer because, one thing which I know is we are really focusing on improving the fundamental of the bank and we will be focusing on building the bank in a robust way. So, from my interactions with various investors and various fund managers, what I could understand is that, they have all invested and they have gone through the pain of these investments coming down over the period and clearly some of them have invested at Rs. 20 - 30 and they were obviously not seeing much return because the share stock has come down. But what I can do is, in setting the bank in the right trajectory and ensuring that we communicate clearly what we are doing as a bank and I would like to be as much transparent as possible as to what is working, what is not working within the bank and I will endeavor to share exactly the plan of how are we going about and I am very open to receiving any kind of suggestions from the people who are engaged with whenever I make a presentation to them. So, I can only tell you that the stock is even as I am talking to you the book value of the share is close to Rs. 27. So, if you ask me whether any other stock in the market will have as much discounting from the book value, I can't think of anything. So, in my view I think the Rs. 1 having a book value of Rs. 27 quoting at whatever rate it is quoting, I think clearly means that it is not just about performance, it is also about how we engage with the entire market. I think that is where my efforts towards engaging very regularly with more and more transparency and with a clear articulation of what I wish to do. I am not saying it wasn't there, it was always there. But I will probably, each one comes with his own style of doing. So, I would probably feel that my approach is to make it as transparent, as open as possible and show the performance and I believe that with a consistent improvement in performance and with a dedicated effort in making progress in turning around the prospects of the bank, market will sooner or later recognize that it is a worthy investment to keep. I think that is something which probably I can aspire for and beyond that obviously nobody understands why some stock is preferred, some stock is not preferred. It is not just about fundamental alone, it is many other things, perceptions etc. which I am sure you know as much as I know. So, I think we will have to leave that for them to do. We need to do what we are good at doing that is basically to focus on improving the fundamental of the bank. That is what I and the team will work towards.

Renu Goel: But can't bank management can think of some sort of like payout to the investors like giving them some bonus share or some low value right share, something like that so that they can compensate it by some way. Not in cash form, but at least who are associated with the bank for long, at least they can continue investing with the bank. I don't want to be looking for any other investment, I keep believing in bank and I am there for last more than 5 years and I bought good amount of shares. But I just looking for some sort of small return or some benefit kind of a situation like or other bank's shares even their values are rising, or some sort of dividends are coming but there is nothing like we are getting.

Murali Ramakrishnan: You are right. I heard what you are saying. Clearly what I would want to communicate is that the moment the banks start doing well, clearly, we will definitely do things which you talked about. We are now in the midst of so many uncertainties, so many challenges, I am sure you must be reading our numbers, you must be reading our commentaries etc. So, if you ask me, do I have the intent to do whatever you said in terms of bonus shares, giving dividend etc. definitely I have great intent to do all that. But do I have the ability to do it today. I don't have the ability to do it today. Clearly, we are working towards making the bank get that ability to do. So, we are only hoping that the market will also be helping us, and we will be able to put in action all the plans which we have in mind. That is where I mentioned about things which I am articulating. I am going about sincerely completing them whether it is raising capital, whether it is raising CASA or whether it is working on bringing down the cost and bring the structural change to make it conducive for growth. All that whatever is required to fundamentally change the direction in which the bank is going, we are doing our best to make that happen. Hopefully that will get results if market is also conducive it can happen sooner or later. But I completely empathize and understand what you are saying. Please be rest assured, if things definitely enable us to make those things, we will be the first one to do happily do it because we certainly appreciate long term investors like you who have faith in the bank, and we definitely would want to do everything possible to make that realized.

Moderator: Thank you. The next question is from the line of Sanjay Kumar from ithought Financial. Please go ahead.

Sanjay Kumar: Sir, two requests before my questions. So, can you release the PPT and give us sometime before the call, so just before the call we can go through it. And can we improve our disclosures like GNPA walkthrough, even though opening and closing maybe include more details about the recoveries, write-offs and also on the SMA detail, SMA breakup that will be great. So, my questions, so first one on the restructured book, we have around 1,200-1,300 crores, are you expecting any slippage from this number, how much have we provided for this. And are we carrying any provisions for wave two, additional provisions, over and above all standalone?

Murali Ramakrishnan: So, if we look at the restructured book, it is about Rs. 1,277 crores that is the total restructuring book which we are carrying in which the restructuring which have happened due to floods is about Rs. 87 crores and due to project loan DCCO extension is about Rs. 77 crores. MSME restructuring is about Rs. 762 crores. COVID restructuring retail is about Rs. 18 crores, COVID restructuring to MSME is about Rs. 256 crores, the other exposure is about Rs. 77 crores. Total standard restructuring is about Rs. 1,277 crores. So, this is the number as of 31-3-2021. The same figure in FY 20 was Rs. 1,205 crores. Now if you ask me in terms of provisioning, clearly whatever is the regulatory provisioning which is required to be done that we have provided for all these cases and if you ask me about the slippages, in flood restructuring we are seeing a slippage of close to 30%. In other restructuring we are seeing a slippage of close to 25%, that is what we are seeing.

Sanjay Kumar: So, you are expecting 20% of this book 1277 crores to slip this year?

Murali Ramakrishnan: Correct. Not necessarily this year. I am saying this is an experience, over a period of time that is what we are saying. Not necessarily this year. This is what we are seeing as a slippage over a period of time.

Sanjay Kumar: And are we carrying any provisions for big assets like we wanted to show some profits, so we stop providing more. So, do we need, should we have provided more in anticipation of wave two?

Murali Ramakrishnan: No, clearly in fact I am sure once you get to see that auditors report you will see that there is absolutely no qualification from the auditors at all. So, whatever is to be provided clearly, we have adhered to that and you should also note that in Q3, that was my second quarter when I was coming up with results. I had no hesitation in coming out and showing a loss. So, I have no qualms showing the correct picture. I know that what I am doing is to make the bank stronger. There is no need for me to just show profit for the sake of showing profit. It is not going to help any. If it is on profit, I should show profit, if it is not making profit, I will not show profit. That much I think can be rest assured.

Sanjay Kumar: Last question. In the last quarter you had spoken about you developing your team and recruiting people. So, are we covered in terms of competency and capabilities, are you expecting more tools at your disposal or are we ready with our engines to grow once the wave two or situation gets better?

Murali Ramakrishnan: As far as the key recruitment is concerned I think answer for one of the previous questions, we have put all the key people in place and all the restructuring which we had to do in terms of structure both in the liability side as well as in the asset side all that has been done and we have also based on the recommendations which have come in terms of how we organize our distribution network we have made branches, we have made clusters, we have brought in cluster heads to manage 8 to 9 branches. And we have brought in regional heads to manage 6 to 7 clusters so that we can get a focus on driving branch profitability, driving cluster profitability and driving a regional profitability. We are also decluttered the branches by taking some of the activities which were originally done in branches we have taken it off and some of them are being carried out from the central location. Wherever it is pertaining to operations etc. where there is a conflict of interest we have created a separate off-structure for taking those activities over there. So, all these are being done and the people also, this is the time of the year when we also promote people, give new responsibilities for people who got promoted. We also move people to take up positions in the branches. So, this year also we have done that, and we are very consciously doing because of some movement restrictions in the entire country. So, as much as possible we are trying to see how we can accommodate people by putting them in nearby locations, so they don't have to really dislocate them for a far-off place. So, some small portions of the people are still to take charge in their new jobs, but by and large structure is in place, the restructuring of divisions have happened, and we have started seeing traction in putting the right team for sourcing etc., templates for review all that has been done. But while doing all these obviously market is not very conducive for souring. So, that is a challenge. But we believe that this structure will definitely help us to navigate that, and we will start seeing traction in the way we grow the business.

Moderator: Thank you. Ladies and gentlemen, due to time constraint we will take that as the last question. On behalf of InCred Equities that concludes this conference. Thank you for joining us and you may now disconnect your lines.